175459

AUSTIN, LEWIS & ROGERS, P.A.

ATTORNEYS AND COUNSELORS AT LAW

DANIEL S. LEWIS
(1940-1981)

WILLIAM F. AUSTIN
E. CROSBY LEWIS
TIMOTHY F. ROGERS
RAYMON E. LARK, JR.
RICHARD L. WHITT
JEFFERSON D. GRIFFITH, III*
EDWARD L. EUBANKS
W. MICHAEL DUNCAN

*ALSO MEMBER NORTH CAROLINA BAR

COLUMBIA OFFICE:
CONGAREE BUILDING
508 HAMPTON STREET, SUITE 300
POST OFFICE BOX 11716
COLUMBIA, SOUTH CAROLINA 29201
TELEPHONE: (803) 256-4000
FACSIMILE: (803) 252-3679
WWW.ALRLAW.COM

WINNSBORO OFFICE:
120 NORTH CONGRESS STREET
POST OFFICE BOX 1061
WINNSBORO, SOUTH CAROLINA 29180
TELEPHONE: (803) 712-9900
FACSIMILE: (803) 712-9901

August 29, 2005

VIA HAND DELIVERY
The Honorable Charles L. A. Terreni
Chief Clerk and Administrator
The Public Service Commission of South Carolina
101 Executive Center Drive
Columbia, South Carolina 29210

RE: Docket No. 2005-210-E – Application of Duke Energy Corporation ("Duke") for Authorization to Enter into a Business Combination Transaction with Cinergy Corporation.

Dear Mr. Terreni:

Enclosed for filing please find the original and twenty-five copies of the direct testimony of Ruth G. Shaw, James E. Rogers, and Myron L. Caldwell along with Exhibit "1" of Myron L. Caldwell (8 pages).

We estimate the time to present the testimony of these three witnesses to be three and one –half hours. Also, please see the enclosed Certificate of Service. If you have any questions or concerns please contact us.

With kind regards, we are

Sincerely,

Richard L. Whitt

William F. Austin
Richard L. Whitt

RLW/dss
cc: Shannon Bowyer Hudson, Esquire
Marcus A. Manos, Esquire
Scott Elliott, Esquire

RE: Docket No. 2005-210-E – Application of Duke Energy Corporation ("Duke") for Authorization to Enter into a Business Combination Transaction with Cinergy Corporation.

CERTIFICATE OF SERVICE

I, Darla Stone, employee of Austin Lewis Rogers, P.A., hereby certify that I caused copies of the direct testimony of Ruth G. Shaw, James E. Rogers, and Myron L. Caldwell along with Exhibit "1" of Myron L. Caldwell (8 pages). to be hand delivered or mailed with sufficient postage and addressed as follows on this date, to the individuals shown below:

Shannon Bowyer Hudson
Office of Regulatory Staff
1441 Main Street, Suite 300
Columbia, South Carolina 29201
(HAND DELIVERY)

Scott Elliott
Elliott & Elliott, P.A
721 Olive Street
Columbia, SC 29205
(U.S. MAIL)

Marcus A. Manos
Electric, Central, and Saluda Cooperatives, Inc.
Nexsen Pruet
Adams Kleemeire, LLC
Post Office Drawer 2426
Columbia, S.C. 29202
(U.S. MAIL)

This the 29th day of August, 2005.

Austin Lewis and Rogers, P.A.
By: Darla S. Stone
Darla S. Stone

BEFORE

PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

Docket No. 2005-210-E

Application of Duke Energy Corporation for Authorization to Enter Into a Business Combination Transaction with Cinergy Corp.	Direct Testimony of Ruth G. Shaw

Q PLEASE STATE YOUR NAME, ADDRESS AND POSITION WITH DUKE ENERGY.

A My name is Ruth Shaw, and my business address is 526 South Church Street, Charlotte, North Carolina. I am President and Chief Executive Officer of Duke Power, a division of Duke Energy Corporation ("Duke Power" or "Company") and I am responsible for leading the entire Company, including Duke Power's nuclear and fossil/hydro operations, power delivery, customer service, and procurement and construction operations. I have overall accountability for financial results, operational performance and customer service.

Q PLEASE STATE BRIEFLY YOUR EDUCATION, BACKGROUND AND PROFESSIONAL AFFILIATIONS.

A I am a graduate of East Carolina University with Bachelor of Arts (magna cum laude) and Master of Arts degrees. I also have a Ph.D. in higher education administration from the University of Texas at Austin. I am a member of the boards of directors of Edison Electric Institute, the Nuclear Energy Institute and the Institute of Nuclear Power Operations. I currently chair the boards of UNC-Charlotte's Charlotte

Research Institute and the Foundation for the Carolinas. I serve as a member of the North Carolina Economic Development Board, the Research Triangle Foundation Board, the Palmetto Business Forum, the South Carolina Manufacturers Alliance, and the South Carolina Council on Competitiveness. I serve on the boards of directors of The Dow Chemical Company and Wachovia Corporation.

Q **PLEASE DESCRIBE YOUR BUSINESS BACKGROUND AND EXPERIENCE.**

A Before joining Duke Power in 1992, I served as President of Central Piedmont Community College in Charlotte for six years and was previously President of El Centro College in Dallas, Texas. I joined Duke Power as Vice-President of Corporate Communications, and was named Senior Vice President of Corporate Resources in 1994. In 1997 I was named Executive Vice President and Chief Administrative Office of Duke Energy and also served as President of The Duke Energy Foundation. I was named to my current position in 2003.

Q **WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

A Duke Energy has applied to the Commission for authority to enter into a business combination with Cinergy Corp. ("Cinergy"). From time to time, I will refer to the combined company as "New Duke Energy". The purpose of my testimony is to provide the policy and strategic reasons why Duke Energy has chosen to enter into the merger and to discuss the benefits of the merger for all of our stakeholders. In addition to my testimony, James E. (Jim) Rogers, Chairman, President and Chief Executive Officer of Cinergy, will present testimony to introduce Cinergy and himself to the Commission and Myron Caldwell, Group Vice President and Chief

Financial Officer for Duke Power will present testimony about the mechanics and financial impacts of the transaction.

Q **WHAT ARE THE OVERALL BENEFITS OF THE MERGER TO DUKE ENERGY, ITS CUSTOMERS AND THE STATE OF SOUTH CAROLINA?**

A As I will discuss in greater detail in my testimony, and as shown in the testimony of Duke Power's other witnesses, the merger will benefit Duke Energy and its customers by creating greater diversity and depth of resources, as well as increasing the number and diversity of service areas and customers. The integration of the two companies will lead to increased efficiency and reduced operating costs. The combination will increase the financial flexibility of the new company and put New Duke Energy in a favorable position for further consolidations in the electric industry.

Q **PLEASE DESCRIBE CINERGY AND ITS OPERATIONS.**

A Cinergy is a Delaware corporation headquartered in Cincinnati, Ohio and is a leading energy company in the Midwest. Its principal direct and indirect subsidiaries are (i) PSI Energy, Inc. ("PSI"), a vertically integrated electric utility serving a significant portion of the retail electric requirements in the State of Indiana, (ii) The Cincinnati Gas & Electric Company ("CG&E"), a utility engaged in the production, transmission, distribution, and sale of electricity and the sale and transportation of natural gas in the southwestern portion of Ohio and (iii) The Union Light, Heat and Power Company ("ULH&P"), a wholly-owned subsidiary of CG&E and a vertically integrated utility serving a portion of the retail electric and gas requirements in Northern Kentucky. Collectively, PSI, CG&E and ULH&P serve approximately 1.5 million retail electric customers and 500,000 retail gas customers. In addition to regulated utility operations, Cinergy's subsidiaries are involved in wholesale power generation and sales, energy marketing and trading, and other energy-related businesses. Cinergy is a registered holding company under PUHCA. It had $15 billion in assets, approximately $4.7 billion in annual revenues and net income of $400 million as of December 31, 2004, and ranked number 412 on Fortune Magazine's 2005 ranking of the 500 largest publicly traded U.S. Companies.

Like Duke Power, the Cinergy electric utilities have a track record of providing strong customer service, and of promoting the communities where they conduct business. In his testimony, Mr. Rogers provides further detail about Cinergy and its customer satisfaction, economic development and service history.

Q **WHAT WERE THE STRATEGIC OBJECTIVES THAT LED DUKE ENERGY TO PURSUE A MERGER WITH CINERGY?**

A We entered into the Plan of Merger to build a stronger company. The merger will create a stronger platform for our regulated and unregulated businesses. Our increased size will position us to take advantage of further consolidation opportunities in both the franchised electric and merchant energy businesses. After the combination, Duke Energy's electric and gas businesses will each be large enough to stand alone - - giving us the flexibility to examine the value in separating our electric and gas businesses in the future.

The transaction will add value to Duke Energy with higher earnings after the first full year of operation. The benefits will increase further in future years through the realization of cost efficiencies. These efficiencies and management commitment to capture them assure that the combined company will be able to offer attractive energy prices to its retail customers, competitive prices and services in wholesale businesses and will better position us to attract the capital needed to assure reliability and expansion.

Cinergy offered a complementary fit of assets and skills to meet our strategic objectives. In addition, Cinergy's management is experienced, highly capable and shares a vision of the future of the energy business that is very similar to Duke Energy's. As Mr. Rogers explains in his testimony, Cinergy's management is experienced with regulatory utility issues and its track record with its previous merger is excellent. Duke Energy and Cinergy also share a common vision on the importance of environmental stewardship.

Q DESCRIBE, GENERALLY, ANY ADDITIONAL BENEFITS OF A MERGER BETWEEN DUKE ENERGY AND CINERGY.

A The merger will also allow us to reduce risk to the overall regulated operations by adding diversity of service areas, climates, economic and competitive conditions. Once combined, Duke Energy will operate one of the five largest electric businesses in the United States on a stand-alone basis, and combined with the gas operations will be one of the largest diversified utility and gas operations in North America. The market capitalization of the combined company, as of close of the stock market on May 6, 2005, was $36 billion. Further, had the merger occurred on January 1, 2004, the combined company would have had pro forma revenues of over $27 billion and pro forma income from continuing operations of approximately $1.6 billion for that calendar year. It also would have had pro forma assets totaling more than $76 billion as of March 31, 2005.

The merger will increase financial flexibility. In particular, the synergies created by the merger will lower the overall cost structure of the combined company which should permit future electric rates to be lower than would otherwise have been the case without the merger. In summary, the combination of Duke Energy and Cinergy will create a diversified company with increased financial strength and flexibility, greater efficiencies, and lower costs.

Q IN YOUR OPINION, WILL THIS BUSINESS COMBINATION WITH CINERGY ENHANCE DUKE POWER'S ABILITY TO SERVE SOUTH CAROLINA RETAIL ELECTRIC CUSTOMERS?

A Yes, both directly and indirectly. First, the economies created by the scale and scope of the larger enterprise will enable Duke Power to offer lower rates than otherwise would have been possible. Second, the merger will directly enhance our ability to serve our customers by providing even greater depth and diversity of human resources experience to continue Duke Power's strong history of customer service. For example, the broader employee base located in a larger geographic area will provide all retail customers access to greater resources in the event of severe weather or other uncontrollable outages or emergencies. This merger will allow the New Duke Energy utility operating companies to develop "best practices" drawing on the experience of Duke Power and the Cinergy operating companies. The merger will indirectly enhance our ability to serve all of our customers by making us a stronger, more sustainable company, better able to provide stable and reliable services at reasonable rates for South Carolina customers under any market or economic condition.

Q PLEASE COMMENT ON DUKE POWER'S COMMITMENT TO ECONOMIC DEVELOPMENT IN SOUTH CAROLINA.

A Duke Power is committed to economic development and is proud of the role it has played in the economic development of South Carolina over the past century. The vision of Duke Power's founder, James Buchanan Duke, was one of economic development, spurred by an electric system that would power textile mills and transform the agrarian economy by driving the economic growth of the Piedmont region of the Carolinas.

Today, the presence of Duke Power's 10,000 employees in the communities we serve provides the foundation for our economic development strategy. We are responding to the changes in the automation of manufacturing and the growth of the global economy. We are finding opportunities to recalibrate our economic development approach; to revamp funding and recruitment policies; to forge new alliances; and to advance technology and innovation. While the economic landscape has changed significantly over the past century, Duke Power's commitment to economic development has not.

Duke Power has many current economic development initiatives. Let me list a few. In 2004, Duke Power announced a profit-sharing approach that shares profits from the Company's short-term, interruptible wholesale sales at market-based rates with our customers and communities. In South Carolina, these profits are contributed to AdvanceSC. AdvanceSC, which is under the direction of an independent board, was established by Duke Power to support the communities in Duke Power's South Carolina service area through grants for public assistance and economic development programs. In general, AdvanceSC focuses on advancing education to support industry, assisting other economic development organizations to attract and retain industries in Duke Power's service territory and enhancing the competitive position of manufacturers in Duke Power's service territory.

Since 1994, Duke Power has offered innovative economic development rates to encourage businesses to locate or expand operations in South Carolina. When our region's manufacturing base began to decline, particularly in the textile and furniture industries, Duke Power responded in 2002 by offering economic redevelopment rates to promote use of unoccupied, industrial facilities.

Another recent example of Duke Power's commitment to economic development is our collaboration with the departments of commerce from both Carolinas to build a world-class Geographic Information System (GIS)-based website that will give site selection consultants, industrial companies and economic developers convenient access to comprehensive information about available industrial properties, local communities, workforce and existing infrastructure.

Duke Power will continue to grow our partnerships with local, regional and statewide government economic development organizations, the private sector and academic circles to influence economic development policy and benefit the communities we serve. In addition, we believe that the combination of our competitive rates and record of superior reliability give us a strategic advantage and valuable economic development tool.

Q **WILL THE MERGER AFFECT DUKE ENERGY'S COMMITMENT TO ECONOMIC DEVELOPMENT IN ANY WAY, AND IF SO, HOW?**

A Duke Energy is a leader and key partner in the communities where we work and serve, as is Cinergy. The merger will not change this imperative, though it will allow us to share good ideas across our companies.

Q **IS THIS TRANSACTION WITH CINERGY JUSTIFIED BY THE PUBLIC CONVENIENCE AND NECESSITY?**

A Yes. The merger will not adversely affect retail rates for Duke Power's South Carolina customers, because it does not increase our cost of service, but in fact is projecte˙ to decrease it. The merger also will not adversely affect Duke Power's quality of retail service. In fact, quality of service should tend to improve as a result of the merger by giving Duke Power access to the best practices of other well-run utilities in the Cinergy group. The merger will not involve any sale, assignment, pledge, transfer or lease of Duke Energy's public utility franchise, and the conversion of Duke Energy to a limited liability company, as described in the testimony of Mr. Caldwell, will have no effect on the Commission's jurisdiction. The New Duke Energy and Duke Power headquarters will remain in Charlotte, and Duke Power customers will continue to have the same local presence and access to their electric utility that they have come to expect. In addition, in an era of consolidation within the electric utility industry, the increased size of the New Duke Energy will enable Duke to withstand possible hostile takeovers more effectively and continue its strong history of dedication to the well being of the State of South Carolina.

As I described earlier, Duke Power is a good corporate citizen and has played a positive role in the development of the Carolinas over the past century. While we have embraced a century of change in customer needs, new technologies and market opportunities, our focus on operational excellence, safety, environmental stewardship and customer and community service, wherever we do business, has not wavered. This commitment, which we know Cinergy shares, will continue to guide our merged company.

For all the reasons discussed previously in my testimony, and in the testimony of the other witnesses on behalf of Duke Energy, I believe that this combination is justified by the public convenience and necessity.

Q **WHAT OTHER REGULATORY PROCEEDINGS ARE PENDING IN CONNECTION WITH THE MERGER?**

A Duke Energy has filed for merger approval from the North Carolina Utilities Commission, and jointly with CG&E for approval from the Public Utilities Commission of Ohio, and jointly with UHL&P for approval from the Kentucky Public Service Commission. PSI has filed for approval of the various merger-related affiliate agreements from the Indiana Utility Regulatory Commission. Duke Energy has filed a license transfer application with the Nuclear Regulatory Commission and Duke Energy and Cinergy also have applied for the Federal Energy Regulatory Commission's approval of the merger. Duke Energy filed a pre-merger notification under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 with the Federal Trade Commission and the United States Department of Justice, and on August 11, 2005, the Federal Trade Commission and U.S. Department of Justice granted early termination of the waiting period imposed by the Hart-Scott-Rodino Antitrust Improvements Act of 1976.

Q **DOES THIS COMPLETE YOUR PREPARED DIRECT TESTIMONY?**

A Yes, it does.

BEFORE

PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

Docket No. 2005-210-E

Application of Duke Energy Corporation for Authorization to Enter Into a Business Combination Transaction with Cinergy Corp.	Direct Testimony of James E. Rogers

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A My name is James E. Rogers, and my business address is 139 East Fourth Street, Cincinnati, Ohio 45202.

Q BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A I am Chairman, President and Chief Executive Officer of Cinergy Corp. ("Cinergy"). Cinergy is the parent holding company of The Cincinnati Gas & Electric Company ("CG&E"), its subsidiary The Union Light Heat & Power Company ("ULH&P"), and PSI Energy, Inc. ("PSI"). I am also Chairman and Chief Executive Officer of CG&E, ULH&P and PSI.

Pursuant to the terms of the Merger Agreement filed with the Commission, I will be the President and Chief Executive Officer of the new holding company resulting from the combination of Duke Energy Corporation and Cinergy Corp. I will refer to the combined company as "New Duke Energy".

Q **PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.**

A I received a bachelor's degree in Business Administration (1970) and a law degree (1974) from the University of Kentucky. I became Vice Chairman, President and Chief Operating Officer of Cinergy in October 1994, and I became Chief Executive Officer in 1995. Prior to joining Cinergy, I was Chairman and Chief Executive Officer of PSI and PSI Resources, Inc., the parent company of PSI ("PSIR"). Before coming to PSI in October of 1988 as Chief Executive Officer, I was Executive Vice President of the gas pipeline group of Enron Corp., and President of Enron's interstate gas pipeline companies from 1985 to 1988. From 1979 to 1981 and from 1983 to 1985, I was in private law practice in Washington, D.C. with the law firm of Akin, Gump, Strauss, Hauer & Feld. During that time, I represented natural gas pipelines, gas producers and electric utilities before the Federal Energy Regulatory Commission ("FERC") and various federal courts. From 1981 to 1983, I was Deputy General Counsel for litigation and enforcement at the FERC. In that position, I directed FERC's litigation efforts in cases involving electric rates, hydroelectric licensing, gas producer and gas pipeline rates. I began my career with the Kentucky Attorney General's Office, representing consumer interests in utility cases.

Q **WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

A The purpose of my testimony is to introduce Cinergy and myself to the Commission. I will also discuss the shared management values that exist between Duke Energy and Cinergy, and why I believe that the merger between our companies will create a combined company that can better advance these values.

Q **PLEASE BRIEFLY DESCRIBE CINERGY AND ITS REGULATED UTILITIES, CG&E, ULH&P AND PSI.**

A Cinergy is a leading energy company in the Midwest and was created on October 24, 1994 from the combination of CG&E and PSIR. Cinergy's corporate offices are located in Cincinnati, Ohio, as are the home offices of CG&E and ULH&P. PSI's headquarters are located in Plainfield, Indiana. Collectively, CG&E, ULH&P and PSI serve approximately 1.5 million retail electric customers and 500,000 retail gas customers in our 25,000 square-mile service area in Indiana, southwestern Ohio and Northern Kentucky.

Cinergy's reliability, competitive rates, quality of customer service, support for economic development and charitable giving, and environmental commitment have served us well. We are committed to our customers, our employees, and the communities in which we serve in the same fashion as Duke Power. We are leaders in the communities we serve. For six consecutive years, *Site Selection* magazine has named Cinergy's economic development department as the best, or among the ten-best, utility economic development departments in the nation. In 2004, the Cinergy Foundation disbursed $3.6 million to charitable causes in our communities. And we strongly encourage the spirit of volunteerism among our employees, who contribute countless hours of volunteer time to support the many communities in which they live and work.

Like Duke Power, Cinergy's operating utilities share a commitment to service and customer satisfaction. These commitments are reflected in several recent rankings and awards. Cinergy has consistently outperformed the J.D. Power and Associates' regional and national average for customer satisfaction with power quality and reliability. Cinergy provided assistance following the devastation caused by hurricanes Charley, Frances and Jeanne and in 2004, received the Edison Electric Institute Emergency Assistance Award which recognizes member companies that put forth outstanding efforts assisting other companies to restore service to the public following a natural disaster. Cinergy ranked 3rd in the Midwest in J.D. Power and Associates' 2005 Residential Customer Satisfaction Index. We ranked 12th nationally for customer satisfaction with large manufacturing and institutional customers in the 2005 Key Account National Benchmark Survey conducted by TQS Research, Inc. Cinergy was the first energy company in the United States to have its call center certified by J.D. Power and Associates for providing an outstanding customer service experience – a designation which Duke Power recently received to join us as the only two energy company call centers so certified. In addition, Cinergy and Duke Energy share a common vision as to the importance of environmental stewardship. Both Paul Anderson and I have taken leadership roles in the area of global climate change and New Duke Energy will continue to be at the forefront of the environmental policy debate. Indeed, the 2004 Cinergy Annual Report was dedicated to greenhouse gas issues.

We expect to maintain all of these commitments and build upon our results as part of New Duke Energy. Cinergy's 2004 Annual Report, which is included in Exhibit C to Duke Energy's Application, also provides more detailed information about our company.

Q **PLEASE DISCUSS CINERGY'S PREVIOUS MERGER HISTORY.**

A In 1994, CG&E and PSIR merged to create Cinergy. I consider the Cinergy merger to be very successful. Cinergy's total shareholder return from October 1994 through 2004 was 227.8%, which is an annualized average return of 12.7% to investors each year. Since 1994, Cinergy has increased its assets by 84%, operating income by 68%, and revenues by 62%. Cinergy has increased its retail customers by about 17%, all while decreasing its employee count (and thus labor costs) by about 12%. We are a larger, more efficient company providing greater value to all of our stakeholders. Most importantly, with the Cinergy merger, we created approximately $1.5 billion in cost savings over the first ten years. These savings helped keep our retail electric and gas rates in Indiana, Ohio and Kentucky lower than they otherwise would have been. In fact, Cinergy's operating utilities continue to have some of the lowest electric rates in the region. When adjusted for inflation, the 2004 average retail electric rates for CG&E, ULH&P, and PSI are lower than they were in 1994.

Cinergy's track record with its previous merger is excellent and I am confident that we can achieve similar success with this merger. As Ms. Shaw discusses in her testimony, the anticipated cost savings and synergies created by the merger, paired with the increased scale and scope of the combined company, will position New Duke Energy to serve its customers well in an era of increasing utility consolidation and rising costs. The combined expertise of the two companies will benefit all of our stakeholders.

Q FROM A REGULATED UTILITY PERSPECTIVE, WHY IS CINERGY A GOOD MERGER PARTNER FOR DUKE ENERGY?

A As Ms. Shaw discusses in her testimony, Duke Power has a long and proud history and tradition of providing high quality electric service at reasonable rates, and of exhibiting good corporate citizenship. Our shared values in these areas are striking and lead me to believe that the merger will be highly successful for all of our stakeholders.

At Cinergy, we believe our core purpose is to provide reliable, competitively priced energy and related services to millions of people, making their lives safer, healthier and more comfortable. We aspire to be the energy company preferred by each of our stakeholders: customers, employees, investors, suppliers, and the communities we serve. Cinergy's core values include:

- **Social Responsibility**
- **Economic Progress**
- **Environmental Improvement**
- **Ethical Business Practices**

As Cinergy strives to meet its purpose, we stay focused on the following guiding principles:

- Focus on the customer – Listen. Show respect. Take ownership. Take action. Honor commitments.
- Demonstrate environmental stewardship in all we do.
- Practice ethics, integrity and transparency in all that we do.
- Be bold, aim high, and expect high performance from yourself, your colleagues and your company.
- Strive for continuous improvement. Think beyond what has been done before and find new ways to work better, faster, and cheaper.
- Turn challenges and risks into opportunities by being proactive and creative.
- Be flexible by being open to change and willing to learn new skills.

- Demonstrate respect and value the opinions and differences of others.
- Emphasize "Safety Always!" – Watch out for the safety of each other and the public.
- Value teamwork – One company, one stock, one team.

Similarly, Duke Energy has adopted a Charter emphasizing that, in conducting its business, Duke Energy values:

- **Stewardship** – A commitment to health, safety, environmental responsibility and our communities.
- **Integrity** – Ethically and honestly doing what we say we will do.
- **Respect for the Individual** – Embracing diversity and inclusion, enhanced by openness, sharing, trust, teamwork and involvement.
- **High Performance** – The excitement and fulfillment of achieving superior business results and stretching our capabilities.
- **Win-Win Relationships** – Having relationships which focus on the creation of value for all parties.
- **Initiative** – Having the courage, creativity and discipline to lead change and shape the future.

Although worded differently, our values and commitments are remarkably similar in word and in deed. These shared values will serve the combined-company well and make for a seamless and successful integration. I also vow to continue my personal commitment to strong corporate governance and business ethics in New Duke Energy.

Q PLEASE SUMMARIZE YOUR CONCLUSIONS CONCERNING THE IMPACT OF THE MERGER ON DUKE ENERGY AND ITS STAKEHOLDERS.

A Duke Energy and Cinergy are complementary companies, with shared values and a history of providing reliable and quality service to our customers at reasonable rates.

The combined company will be larger and more diverse, enabling it to adjust to changing market conditions. Cinergy, under my leadership, has a solid history of a successful merger, including successfully executing on and producing large merger savings to the benefit of customers. I am committed to making the merger of Cinergy and Duke Energy a success by creating value for all of the stakeholders of New Duke Energy.

Q DOES THAT CONCLUDE YOUR PREPARED DIRECT TESTIMONY?

A Yes, it does.

BEFORE

PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

Docket No. 2005-210-E

Application of Duke Energy Corporation for Authorization to Enter Into a Business Combination Transaction with Cinergy Corp.	)	Direct Testimony of Myron L. Caldwell

I. INTRODUCTION AND QUALIFICATIONS

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Myron L. Caldwell, 422 South Church Street, Charlotte, North Carolina.

Q WHAT IS YOUR POSITION WITH DUKE ENERGY CORPORATION?

A I am Group Vice President and Chief Financial Officer of Duke Power, a division of Duke Energy Corporation.

Q PLEASE BRIEFLY OUTLINE YOUR EDUCATION, BUSINESS, AND EMPLOYMENT HISTORY.

A I am a graduate of the University of North Carolina-Charlotte, holding a degree of Bachelor of Arts in Business Administration as well as a Bachelor of Science in Accounting. I am a certified public accountant with membership in the American Institute of Certified Public Accountants. I am a past vice-chairman of the Accounting and Finance Executive Committee and past chairman of the Finance Section of the Southeastern Electric Exchange.

Upon graduation from the University of North Carolina-Charlotte, I joined Duke Energy in 1981 as a staff accountant in the controller's department. After a series of promotions in the accounting and treasury area, I was named Controller of Duke Power, a division of Duke Energy Corporation, before being named senior vice president and chief financial officer of Duke Engineering & Services in April 1998. I was named managing director of corporate finance in September 1999 and vice president of corporate finance in October 2000. I was then named vice-president and treasurer in December 2003 and was named to my current position as group vice-president and chief financial officer of Duke Power in June 2005. As group vice-president and chief financial officer of Duke Power, I am responsible for accounting, finance, risk management, customer billing and information technology functions related tc Duke Power.

Q **WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

A On July 15, 2005, Duke Energy Corporation ("Duke Energy") applied to the Commission for authority to merge with Cinergy Corp. ("Cinergy"). The purpose of my testimony is to describe the proposed transaction, discuss the financial impact of the transaction and to show that, on completion of the transaction; Duke Energy will continue to be financially strong and will be able to continue to render dependable service at reasonable rates for its retail customers in South Carolina.

II. PROPOSED TRANSACTION

Q PLEASE DESCRIBE THE BUSINESS COMBINATION BETWEEN DUKE AND CINERGY.

A On May 8, 2005, Duke Energy and Cinergy entered into an Agreement and Plan of Merger, which was amended on July 11, 2005 to include provisions allowing for the rollover of the respective companies' dividend retirement plans ("Merger Agreement"). Under the Merger Agreement, the proposed merger will be accomplished via an all-stock transaction. Through a series of mergers, conversions, and reorganizations, Duke Power, Duke Capital LLC, Duke Energy Shared Services, LLC ("Duke Services") and Cinergy will become wholly-owned subsidiaries of a new Delaware holding company to be named "Duke Energy Corporation." I will refer to the new Duke Energy holding company herein as the "New Duke Energy." Holders of Duke Energy common stock will receive New Duke Energy common stock on a one-for-one basis, and holders of Cinergy common stock will receive 1.56 shares of New Duke Energy common stock for each share of Cinergy common stock held. After completion of the merger, former Duke Energy shareholders will own approximately 76% of the New Duke Energy holding company stock, and former Cinergy shareholders will own approximately 24% of the New Duke Energy holding company stock.

Q I SHOW YOU WHAT HAS BEEN MARKED AS EXHIBIT A TO DUKE ENERGY'S APPLICATION; WOULD YOU PLEASE DESCRIBE WHAT IT IS?

A Yes. Exhibit A is the May 8, 2005 Agreement and Plan of Merger by and among Duke Energy, Cinergy, Deer Energy Holding Corp. (since renamed Duke Energy Holding Corp.), Deer Acquisition Corp. and Cougar Acquisition Corp. Deer Acquisition Corp. and Cougar Acquisition Corp. are entities established solely for purposes of achieving the merger. Exhibit A contains a detailed account of the merger and related transactions.

Q I SHOW YOU WHAT HAS BEEN MARKED AS EXHIBIT B TO DUKE ENERGY'S APPLICATION. PLEASE DESCRIBE THE EXHIBIT.

A Exhibit B is a schematic depiction of the merger transactions. It shows a step-by-step description of how the various transactions associated with the merger will be accomplished.

III. CONVERSION OF DUKE POWER TO A LIMITED LIABILITY COMPANY

Q PLEASE EXPLAIN HOW DUKE POWER WILL BE ORGANIZED AS A RESULT OF THE MERGER.

A Duke Power is currently a division of Duke Energy Corporation. Following the merger and plan of conversion, Duke Energy will convert to a North Carolina limited liability company to be called Duke Power Company, LLC ("Duke Power"). Duke Power will remain a wholly-owned subsidiary of the New Duke Energy, as the New Duke Energy will own all of the limited liability company interests in Duke Power. Duke Power and the New Duke Energy's headquarters will remain in Charlotte.

Q HOW WILL DUKE ENERGY CORPORATION BE CONVERTED INTO A LIMITED LIABILITY COMPANY?

A I am informed that the procedure for converting a North Carolina corporation into a North Carolina limited liability company is set forth in N.C. Gen. Stat. §55-11A-10 *et seq*. and N.C. Gen. Stat. §57C-9A-01 *et seq*. We will obtain the necessary board and shareholder approvals required by statute and file articles of organization with the North Carolina Secretary of State.

Q WHY IS DUKE ENERGY CONVERTING TO A LIMITED LIABILITY COMPANY?

A We have structured this conversion of Duke Energy to a limited liability company to permit Duke Energy to distribute its non-regulated assets to the New Duke Energy (and have the New Duke Energy become obligated on certain liabilities of Duke Energy) without incurring substantial federal and state income tax costs or other additional costs as a result of the transaction. Thus, the use of Duke Power Company, LLC as the franchised electric operating company owned by the New Duke Energy will facilitate the acquisition of Cinergy in a direct and efficient tax-free manner.

IV. REPEAL OF THE PUBLIC UTILITY HOLDING COMPANY ACT ("PUHCA")

Q PLEASE EXPLAIN THE RECENT LEGISLATIVE CHANGES RELATED TO PUHCA.

A Among other things, the Energy Bill signed by the President on August 8, 2005, provides for the repeal of PUHCA six months after enactment. As such, the Securities and Exchange Commission ("SEC") will no longer have regulatory authority over public utility holding company systems like the New Duke Energy, and the companies do not intend to file for SEC approval of the merger under PUHCA. Nevertheless, the New Duke Energy will be organized as a holding company and will have certain affiliate agreements in place that will enable more efficient, transparent operation and, while no longer required by federal statute, are sound business practices.

Q. WHAT ARE SOME OF THE AFFILIATE AGREEMENTS DUKE POWER WILL ENTER INTO AS A RESULT OF THIS TRANSACTION.

A. Duke Energy intends to enter into the following agreements in connection with the business combination with Cinergy:

1) the Service Company Utility Service Agreement ("Utility Service Agreement"),

2) the Operating Company/Nonutility Companies Service Agreement ("Operating Company/Nonutility Service Agreement"),

3) the Operating Companies Service Agreement,

4) the Money Pooling Agreement, and

5) the Tax Sharing Agreement.

Q PLEASE PROVIDE AN OVERVIEW OF THESE AGREEMENTS.

A The Utility Service Agreement will govern the provision of services from Duke Services to Duke Power and other Duke Energy regulated utility affiliates following the consummation of the merger. The Operating Company/Nonutility Service Agreement will allow Duke Power to provide services to various non-regulated affiliated companies, and vice versa. The Operating Companies Service Agreement is similar in form and purpose to the Operating Company/Nonutility Service

Agreement. Under this agreement, the various utility companies are permitted to perform services for one another.

The Utility Money Pool Agreement provides the opportunity for borrowing from external sources and for loans of surplus cash between and among Duke Power and its utility affiliates. The purpose of the New Duke Energy Tax Sharing Agreement is to allocate the consolidated income tax liabilities and benefits among the members of the New Duke Energy consolidated group in the manner agreed upon by the appropriate members of the consolidated group.

These agreements will provide great value to Duke Power and both its utility and nonutility affiliates. As discussed further below, the ability to draw upon the expertise and experience of its utility and nonutility affiliates will be a benefit to Duke Power, and ultimately Duke Power's customers.

V. OVERVIEW OF MERGER'S FINANCIAL IMPACT

Q PLEASE GENERALLY DESCRIBE THE FINANCIAL IMPACT OF THE MERGER BETWEEN DUKE ENERGY AND CINERGY.

A Duke Energy entered into the Merger Agreement to build a larger, more diversified, financially stronger company. Upon consummation of the merger, the company will be renamed "Duke Energy Corporation", and the existing Duke Energy Corporation will be converted to a North Carolina limited liability company called "Duke Power Company, LLC". Had the merger occurred on January 1, 2004, the combined company would have had pro forma income from continuing operations of approximately $1.6 billion for the year ended December 31, 2004, pro forma assets totaling more than $76 billion as of March 31, 2005, and market capitalization of approximately $36 billion as of stock close on May 6, 2005. See Caldwell Exhibit 1. Based upon these estimates, New Duke Energy will have one of the top five electric businesses in the United States on a stand-alone basis, and combined with its gas operations, will be one of the largest diversified utility and gas operations companies in North America. Duke Power will benefit from New Duke Energy's financial strength and access to financial markets. Duke Power itself will retain the ability and financial strength to obtain financing on its own, subject to any necessary regulatory approval.

VI. ACCOUNTING TREATMENT OF MERGER

Q PLEASE DISCUSS THE ACCOUNTING TREATMENT OF THE MERGER TRANSACTION.

A The merger will be accounted for as a purchase by New Duke Energy under generally accepted accounting principles, specifically FASB Statement No. 141, Business Combinations. Under the purchase method of accounting, a business combination is treated as the acquisition of one company by another. The purchase price, including all of the acquirer's costs of completing the acquisition, is allocated to all of the purchased company's identified assets acquired and liabilities assumed, based on their fair values. If the purchase price exceeds the fair value of the acquired company's net assets, the excess is recorded as goodwill. Accordingly, the assets and liabilities of Cinergy will be recorded, as of completion of the merger, at their respective fair values and added to those of New Duke Energy. The reported financial condition and results of operations of New Duke Energy issued after completion of the merger will reflect Cinergy's balances and results subsequent to the merger, but will not be restated retroactively to reflect the historical financial position or results of operations of Cinergy. In other words, earnings and losses of Cinergy are included in New Duke Energy's financial statements from the consummation date of the acquisition forward. Following completion of the merger, the earnings of the combined company will reflect purchase accounting adjustments, including increased amortization and depreciation expense for acquired assets.

VII. FINANCIAL STRENGTH AND PRO FORMA FINANCIAL STATEMENTS

Q HAS DUKE ENERGY PREPARED ANY SCHEDULES SHOWING THE FINANCIAL STRENGTH OF THE COMBINED COMPANY?

A Yes. Caldwell Exhibit 1 to my testimony shows pro forma financial information for the combined company.

Q PLEASE DESCRIBE CALDWELL EXHIBIT 1.

A Caldwell Exhibit 1 shows the effect of the merger on the financial statements of New Duke Energy. In particular, pages 1 through 4 show the Unaudited Pro Forma Condensed Combined Statement of Operations for the Three Months ended March 31, 2005, the Unaudited Pro Forma Condensed Combined Statement of Operations for the Year ended December 31, 2004, and the accompanying notes. Pages 5 to 8 are the Unaudited Pro Forma Condensed Combined Balance Sheet and the accompanying notes as of March 31, 2005. These statements are copies of the pro forma financial statements incorporated within the preliminary registration statement (Form S-4) filed with the SEC on June 30, 2005, except that the pages have been renumbered for ease of reference. The unaudited pro forma condensed combined statements of operations combine the historical consolidated statements of operations for Duke Energy and Cinergy, giving effect to the merger as if it had occurred on January 1, 2004. The unaudited pro forma condensed combined balance sheet combines the historical consolidated balance sheets of Duke Energy and Cinergy, giving effect to the merger as if it had been consummated on March 31, 2005.

Q **WERE THESE FINANCIAL STATEMENTS PREPARED USING THE PURCHASE METHOD OF ACCOUNTING?**

A Yes, the unaudited pro forma condensed combined financial information was prepared using the purchase method of accounting, with Duke Energy treated as the acquirer. Accordingly, the historical consolidated financial information is adjusted to give affect to the impact of the consideration issued in connection with the merger. Additionally, other adjustments such as adjustments to depreciation and amortization expense on acquired assets are made to reflect purchase accounting. In the unaudited pro forma condensed combined balance sheet, Duke Energy's cost to acquire Cinergy has been allocated to the assets to be acquired and liabilities to be assumed based upon preliminary estimates of their respective fair values as determined by the managements of Duke Energy and Cinergy. Any differences between the fair value of the consideration to be issued and the fair value of the assets and liabilities to be acquired have been recorded as goodwill on the pro forma statements. Definitive allocations will be performed and finalized based upon evaluations and other studies that will be performed following the closing date of the merger. Accordingly, the pro forma purchase allocation adjustments are preliminary and have been made solely for the purpose of providing unaudited pro forma condensed combined financial information and are subject to revision based on the final determination of fair value following the closing of the merger.

Q BRIEFLY EXPLAIN THE PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2005.

A The first column of this statement shows Duke Energy's historical statement of operations, including revenue and expense data, for the three months ended March 31, 2005, and reflects income from continuing operations available for common stockholders of $865 million. The second column reflects similar information for Cinergy and shows income from continuing operations available for common stockholders of $117 million for the same period. The third column shows certain pro forma adjustments related to the transaction, and the fourth column shows the New Duke Energy pro forma data including pro forma income from continuing operations available for common stockholders of $985 million for the period.

Q PLEASE EXPLAIN THE PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2004.

A Like the previous statement, this statement reflects historical revenue, expense, and income data for Duke Energy and Cinergy as well as the pro forma data for the combined company. This statement shows data for the year ended December 31, 2004 while the previous statement only showed data for the three months ended March 31, 2005. The first column of this statement shows Duke Energy's historical statement of operations and reflects income from continuing operations of $1,223 million for the year ended December 31, 2004. The second column shows the same kind of historical information for Cinergy and income from continuing operations for the same period of $401 million. The third column shows the pro forma adjustments related to the merger and the fourth column shows the resulting pro forma statement of operations for New Duke Energy.

Q DO THE UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENTS OF OPERATIONS INCLUDE THE IMPACTS OF ANY REVENUE, COST OR OTHER OPERATING SYNERGIES THAT MAY RESULT FROM THE MERGER?

A No. Additionally, the unaudited pro forma condensed combined financial statements do not reflect the impact of financing, liquidity or other balance sheet repositioning that may be undertaken in connection with or subsequent to the merger, nor does it reflect any other changes that might occur regarding the Duke Energy and Cinergy combined portfolios of businesses.

Q HOW WILL PURCHASE ACCOUNTING AFFECT THE FINANCIAL STATEMENTS OF DUKE POWER?

A We do not anticipate the application of purchase accounting for the Cinergy merger having any impact on the post-merger stand-alone financial statements of Duke Power.

Q PLEASE EXPLAIN THE PRO FORMA CONDENSED COMBINED BALANCE SHEET AS OF MARCH 31, 2005.

A The combined balance sheet shows the effect of the merger transaction on New Duke Energy's capitalization. It shows, in the first column Duke Energy Corporation's balances as they existed March 31, 2005, in the second column the Cinergy historical balances as of the same date, and in the third column certain pro forma adjustments related to the transaction. For example, a pro forma adjustment is made to eliminate the historical common shareholders equity of Cinergy. Also, a pro forma adjustment is made to reflect the redemption for cash of Duke Energy's Preferred and Preference stock. Duke Energy's use of its reasonable best efforts to redeem all of the preferred and preference stock prior to the merger is a condition stipulated in the Merger Agreement. The fourth column shows the New Duke Energy pro forma data. As shown in this column, had the transaction closed on March 31, 2005, it would have resulted in total common stockholders' equity of approximately $25.5 billion dollars and long-term debt, excluding current maturities, of approximately $21.3 billion dollars.

Q **IS DUKE POWER ISSUING ANY STOCK OR DEBT TO FINANCE THE ACQUISITON OF CINERGY?**

A No. Duke Power is not issuing any debt or stock to consummate this transaction. All stock will be issued by New Duke Energy Company. Further, there is no intent for New Duke Energy or any of its other subsidiaries to issue any debt for the acquisition.

Q **PLEASE PUT THESE NUMBERS IN PERSPECTIVE IN TERMS OF THE ABILITY OF DUKE POWER, AFTER THE COMBINATION, TO RENDER RELIABLE SERVICE TO ITS SOUTH CAROLINA RETAIL CUSTOMERS.**

A Historically, Duke Energy's Duke Power division has had strong cash flow and financial stability, and the merger will have no adverse impact on this position. Post merger, Duke Power will be a separate first-tier subsidiary under New Duke Energy.

It will remain a regulated utility and will continue to operate in an efficient manner. As a separate subsidiary, Duke Power's credit risk will be rated separately from that of New Duke Energy and its other subsidiaries. Indeed, the credit risk profile of Duke Power should be better than that of New Duke Energy because Duke Power will maintain regulated electric operations whereas New Duke Energy, as a holding company, will maintain other regulated and non-regulated operations in addition to its electric utility subsidiaries. Regardless, the financial condition of New Duke Energy as well as Duke Power will support Duke Power's ability to provide reliable service to its South Carolina retail customers. I believe this transaction will not adversely affect Duke Power's South Carolina electric operations or customers.

Q WHAT EFFECT WILL THE COMBINATION HAVE ON DUKE POWER'S SOUTH CAROLINA RETAIL RATES?

A The transaction itself will not have any immediate impact on Duke Power's electric rates. The savings which will result from the scale and scope created by the transaction will favorably affect costs for Duke Power and enable lower rates for customers than otherwise would have been possible. Therefore, Duke Power's South Carolina retail cost of service is not adversely affected by the transaction, and neither are its jurisdictional revenues or expenses.

Q. HOW WILL THE COSTS AND BENEFITS OF THE MERGER BE REALIZED BY SOUTH CAROLINA RETAIL CUSTOMERS?

A The allocations to each of Duke Power's state jurisdictions for regulatory accounting and reporting and rate making purposes are determined by the Company's cost of service studies. The actual costs and savings will be reflected in various accounts and will be allocated to the South Carolina retail jurisdiction as part of the annual cost-of-service study. These allocated costs and savings will be passed on to customers in the normal course of ratemaking.

Q **WILL EACH OF THE NEW DUKE ENERGY UTILITY OPERATING COMPANIES HAVE, FOR BOTH ACCOUNTING AND RATE MAKING PURPOSES, INDIVIDUAL CAPITAL STRUCTURES?**

A Yes. As explained earlier in my testimony, the merger will result in the regulated electric utility assets currently owned and operated by Duke Energy being owned and operated by Duke Power. Duke Power and its sister company, Duke Capital and the new Duke Energy services company, will all be first tier subsidiaries of New Duke Energy, as well as Cinergy which holds directly or indirectly utility operating companies PSI Energy, Inc. ("PSI"), The Cincinnati Gas & Electric Company ("CG&E") and The Union Light, Heat and Power Company ("ULH&P"). Each operating company will continue to have its own distinct capital structure for both accounting and ratemaking purposes. Each operating company will have its own unique needs (i.e., construction, operating cash needs, etc.) which would require the operating company to issue its own debt or preferred securities and/or receive equity contributions from New Duke Energy, and in the case of PSI or CG&E, from New Duke Energy through Cinergy. New Duke Energy may, in turn, make equity contributions with tendered cash from the sale of its common stock or other sources of cash from its other businesses. It is contemplated that the New Duke Energy common stock dividend payout ratio will reflect a level that is reasonable with respect to general electric utility industry practice. It is further contemplated that the operating companies' dividend payment amounts will be consistent with the respective operating company maintaining a reasonable capital structure, providing reasonable and adequate service, and maintaining an adequate cash position. Although New Duke Energy intends in the long run to maintain balanced capital structures between the operating companies, spot analysis could show differences resulting from the unique needs of the operating companies at a given point in time.

Q HOW WILL DUKE POWER RETAIL ELECTRIC CUSTOMERS BE INSULATED FROM LIABILITY FOR DEBT ISSUED AT THE NEW DUKE ENERGY AND CINERGY LEVELS UNDER THE MERGER STRUCTURE?

A All debt at New Duke Energy and its other subsidiaries will be non-recourse to Duke Power. This means that the holders of those debt securities will not be able to require Duke Power to fulfill those obligations. This is the same protection that currently exists in the Duke Energy structure where the debt of Duke Capital, for example, is nonrecourse to Duke Power.

Q ARE THERE ANY IMPACTS FROM THE MERGER ON ANY OF DUKE POWER'S CURRENT FINANCIAL INSTRUMENTS?

A As previously explained, in the restructuring occurring in the merger, Duke Power will become a direct subsidiary of New Duke Energy with Duke Capital being a direct subsidiary of Duke Power. As part of the transaction, in order for Duke Power to become a free-standing utility subsidiary without extensive nonutility holdings, Duke Power will distribute its ownership of Duke Capital to New Duke Energy. In light of this distribution, New Duke Energy may become obligated on the existing senior unsecured debt of Duke Power while Duke Power would also retain those obligations. We expect no financial impact on the existing Duke Power debt as a result of this distribution.

VIII. CREDIT QUALITY

Q **HOW WILL THE MERGER IMPACT DUKE ENERGY'S CREDIT QUALITY?**

A Prior to the announcement of the merger with Cinergy, Duke Energy's senior unsecured credit ratings were Baa1, BBB and BBB+ with "Stable" outlooks at Moody's, S&P and Fitch respectively. Following the merger announcement, on May 9, 2005, Fitch affirmed the credit ratings with "Stable" outlooks for Duke Energy and its subsidiaries. On May 10, 2005, both Moody's and S&P changed the outlooks of Duke Energy's and several of its subsidiaries' credit ratings. Moody's revised its outlook for Duke Energy to "Developing" while S&P changed its outlook to "Credit Watch Negative". Both agencies expressed similar concerns over uncertainties surrounding various aspects of the merger. We believe the overall credit quality of Duke Energy should remain at or better than its current state following the consummation of the merger. The future realization of synergies identified with the merger as well as the combination of the regulated electric utility businesses should reduce the overall business risk profile of the New Duke Energy affording it the opportunity to improve its credit quality.

Q **DOES MOODY'S PLACING DUKE ENERGY ON A RATING OUTLOOK OF "DEVELOPING" INDICATE THAT THE MERGER WILL HAVE A NEGATIVE EFFECT ON THE CREDIT PROFILE OF DUKE?**

A No. The primary rationale behind Moody's "developing" outlook is the uncertainty regarding the ultimate corporate structure of the New Duke Energy. Moody's notes that ratings upgrades could result if Duke Power were to find itself as a stand-alone, vertically integrated utility subsidiary of the New Duke Energy. While the final ratings outcome is unknown at this time, Moody's notes from a consolidated pro-forma perspective, the merger with Cinergy is largely ratings neutral.

Q **DOES S&P PLACING DUKE ENERGY ON A RATING OUTLOOK OF "CREDIT WATCH NEGATIVE" IMPLY THAT THE MERGER WILL HAVE A NEGATIVE EFFECT ON THE CREDIT PROFILE OF DUKE ENERGY OR DUKE POWER?**

A No. The primary rationale behind S&P's action was the lack of clarity concerning the final corporate structure of New Duke Energy and the company's indication that it may pursue various strategic options, including the potential separation of the regulated utility and pipeline operations. S&P also expressed concerns about the fact that the companies may be required to share a larger-than-anticipated portion of their cost savings with their ratepayers in order to receive the necessary regulatory approvals. S&P noted however, the ratings on New Duke Energy, post merger, are more likely to remain at current levels than be lowered, assuming no material increase in business risk or weakening in the consolidated financial profile.

Q **WHAT HAS BEEN THE CAPITAL MARKET REACTION TO THE CREDIT RATING AGENCY REPORTS ISSUED AFTER THE MERGER WAS ANNOUNCED?**

A Duke Energy's credit spreads have remained very consistent in the aftermath of the credit rating agency reports. We have seen no tangible change as a result of the reports. This would suggest that the capital markets have viewed the merger transaction as having no material impact on the credit quality of Duke Energy.

IX. REGISTRATION STATEMENT AND ANNUAL REPORTS

Q HAS DUKE FILED WITH THE SECURITIES AND EXCHANGE COMMISSION THE PROXY MATERIALS RELATING TO THIS TRANSACTION?

A On June 30, 2005, New Duke Energy filed a preliminary copy of a registration statement under the Securities Act of 1933 on Form S-4 with the SEC. We have received comments on the Form S-4 from the SEC Staff and expect to respond with an amendment to the filing during the month of August.

Q HAS DUKE ENERGY PROVIDED COPIES OF THE ANNUAL REPORTS TO STOCKHOLDERS OF CINERGY AND DUKE ENERGY IN CONNECTION WITH THIS PROCEEDING?

A Yes and those documents are attached as Exhibit C to the Application for approval of the merger.

X. CONCLUSION

Q IN YOUR OPINION IS THE PROPOSED MERGER JUSTIFIED BY THE PUBLIC INTEREST?

A Yes it is, for the reasons that I have discussed above and for the reasons discussed in the testimonies of Witnesses Shaw and Rogers.

Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

CALDWELL
Exhibit 1

DUKE ENERGY HOLDING CORP.
Unaudited Pro Forma Condensed Combined Statement of Operations
For the Three Months Ended March 31, 2005
(In millions, except per-share amounts)

	Duke Energy Historical	(a) Cinergy Historical	Pro Forma Adjustments	Duke Energy Holding Pro Forma
Operating Revenues				
Non-regulated electric, natural gas, natural gas liquids and other	$3,324	$ 461	$ 14 (b) 6 (h)	$3,805
Regulated electric	1,274	577		1,851
Regulated natural gas and natural gas liquids	1,151	306		1,457
Total operating revenues	5,749	1,344	20	7,113
Operating Expenses				
Natural gas and petroleum products purchased	3,023	209	(18)(h)	3,214
Costs of fuel resold	—	85		85
Operation, maintenance and other	864	332		1,196
Fuel used in electric generation and purchased power	432	305	39 (b)	776
Depreciation and amortization	506	126	(1)(c)	631
Property and other taxes	160	79		239
Impairment and other charges	121	—		121
Total operating expenses	5,106	1,136	20	6,262
Gains on Sales of Investments in Commercial and Multi-Family Real Estate	42	—		42
Gains (Losses) on Sales of Other Assets, net	33	—		33
Operating Income	718	208	—	926
Other Income and Expenses				
Equity in earnings of unconsolidated affiliates	41	5	(3)(d)	43
Gains (Losses) on sales and impairments of equity investments	1,239	(7)		1,232
Other income and expenses, net	25	9	(1)(e)	33
Total other income and expenses	1,305	7	(4)	1,308
Interest Expense	293	64	(4)(f) (1)(g)	352
Minority Interest Expense	416	1	—	417
Earnings From Continuing Operations Before Income Taxes	1,314	150	1	1,465
Income Tax Expense from Continuing Operations	447	33	— (i)	480
Income From Continuing Operations	867	117	1	985
Dividends and Premiums on Redemption of Preferred and Preference Stock	2	—	(2)(j)	—
Income from Continuing Operations Available For Common Stockholders	$ 865	$ 117	$ 3	$ 985
Common Stock Data				
Weighted-average shares outstanding				
Basic	954	196		1,260(k)
Diluted	990	197		1,297(k)
Earnings per share (from continuing operations)				
Basic	$ 0.91	$ 0.60		$ 0.78
Diluted	$ 0.88	$ 0.60		$ 0.76

See accompanying Notes to Duke Energy Holding Corp. Unaudited Pro Forma Condensed Combined Statement of Operations, which are an integral part of these statements.

DUKE ENERGY HOLDING CORP.
Unaudited Pro Forma Condensed Combined Statement of Operations
For the Year Ended December 31, 2004
(In millions, except per-share amounts)

	Duke Energy Historical	(a) Cinergy Historical	Pro Forma Adjustments	Duke Energy Holding Pro Forma
Operating Revenues				
Non-regulated electric, natural gas, natural gas liquids and other	$14,275	$1,671	$ 145 (b) (24)(h)	$16,067
Regulated electric	5,111	2,326		7,437
Regulated natural gas and natural gas liquids	3,117	691	(6) (h)	3,802
Total operating revenues	22,503	4,688	115	27,306
Operating Expenses				
Natural gas and petroleum products purchased	11,335	428	(52)(h)	11,711
Costs of fuel resold	—	281		281
Operation, maintenance and other	3,568	1,282		4,850
Fuel used in electric generation and purchased power	2,098	1,244	232 (b)	3,574
Depreciation and amortization	1,851	461	(3)(c)	2,309
Property and other taxes	539	254		793
Impairment and other charges	65	—		65
Total operating expenses	19,456	3,950	177	23,583
Gains on Sales of Investments in Commercial and Multi-Family Real Estate	192	—		192
Gains (Losses) on Sales of Other Assets, net	(225)	—		(225)
Operating Income	3,014	738	(62)	3,690
Other Income and Expenses				
Equity in earnings of unconsolidated affiliates	161	48	(10)(d)	199
Losses on sales and impairments of equity investments	(4)	—		(4)
Other income and expenses, net	145	(3)	(4)(e)	138
Total other income and expenses	302	45	(14)	333
Interest Expense	1,349	275	(17)(f) (5)(g)	1,602
Minority Interest Expense	195	3		198
Earnings From Continuing Operations Before Income Taxes	1,772	505	(54)	2,223
Income Tax Expense from Continuing Operations	540	104	(22)(i)	622
Income From Continuing Operations	1,232	401	(32)	1,601
Dividends and Premiums on Redemption of Preferred and Preference Stock	9	—	(9)(j)	—
Income from Continuing Operations Available For Common Stockholders	$ 1,223	$ 401	$ (23)	$ 1,601
Common Stock Data				
Weighted-average shares outstanding				
Basic	931	181		1,213 (k)
Diluted	966	184		1,253 (k)
Earnings per share (from continuing operations)				
Basic	$ 1.31	$ 2.22		$ 1.32
Diluted	$ 1.27	$ 2.18		$ 1.28

See accompanying Notes to Duke Energy Holding Corp. Unaudited Pro Forma Condensed Combined Statement of Operations, which are an integral part of these statements.

Duke Energy Holding Corp.
Notes to Unaudited Pro Forma Condensed
Combined Statements of Operations

(a) *Cinergy Historical Presentation*—Certain adjustments have been made to Cinergy's historical presentation in order to conform to Duke Energy's historical presentation. These adjustments had no impact on the historical income from continuing operations reported by Cinergy. All utility revenues are presented as either regulated electric or gas, respectively, with one exception for CG&E electric generation. CG&E's electric generation business is presented as non-regulated electric revenues. Revenues derived from CG&E's retail electric generation business are approved through a public service commission order through 2008; however, CG&E generation does not follow Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" and is therefore presented as non-regulated.

(b) *Operating Revenues and Fuel used in Electric Generation and Purchased Power*—Represents the pro forma adjustments required to reflect the net incremental operating revenue and net incremental fuel and emission allowance expenses resulting from (1) the amortization of the fair value adjustments related to certain of Cinergy's fuel contracts and power sale agreements (see balance sheet note (k)) and (2) the adjustment of emission allowances to fair value which increases the expense recognition of emission allowances consumed (see balance sheet note (d)).

(c) *Depreciation and Amortization Expense*—Represents the pro forma adjustment required to reflect the net incremental depreciation and amortization expense resulting from the fair valuation of Cinergy's power generating assets. As discussed in balance sheet note (c), the amount of this adjustment is based on preliminary estimates of the fair values of the related assets.

(d) *Equity in Earnings of Unconsolidated Affiliates*—Represents the pro forma adjustment required to reflect a net decrease in equity in earnings of unconsolidated investments in domestic and foreign entities, joint ventures and partnerships (see balance sheet note (e)) resulting from the basis difference in the equity method investments being amortized over the average remaining life of the related long-lived assets of those investments.

(e) *Interest Income*—Represents the pro forma adjustment to interest income resulting from the fair value adjustment of Cinergy's notes receivable (see balance sheet note (f)). The final fair value determination of the notes receivable will be based on prevailing market interest rates at the completion of the mergers and the necessary adjustment will be amortized as a reduction (in the case of a premium to book value) or an increase (in the case of a discount to book value) to interest income over the remaining life of the individual notes receivable.

(f) *Interest Expense*—Represents the pro forma adjustment to interest expense resulting from the fair valuation of Cinergy's third-party debt related to its non-regulated operations (see balance sheet note (i)). The final fair value determination of the debt will be based on prevailing market interest rates, adjusted for estimated issuance costs, at the completion of the mergers and the necessary adjustment will be amortized as a reduction (in the case of a premium to book value) or an increase (in the case of a discount to book value) to interest expense over the remaining life of the individual debt issues.

(g) *Interest Expense*—Represents the pro forma adjustment to interest expense to reflect the elimination of historical amortization of deferred debt costs for debt related to Cinergy's non-regulated operations (see balance sheet note (g)).

(h) *Intercompany Transactions*—Represents the pro forma adjustments required for transactions between Duke Energy and Cinergy included in each company's historical statements of operations. The underlying amounts in these adjustments relate primarily to purchases and sales of power and gas between the companies. The pro forma adjustments for intercompany transactions do not net to zero due to differing accounting designations by Duke Energy and Cinergy for certain derivative instruments.

(i) *Income Tax Provision*—Represents the pro forma tax effect of the above adjustments determined based on an estimated prospective statutory tax rate of approximately 40%. This estimate could change based on changes in the applicable tax rates and finalization of the combined company's tax position.

(j) *Dividends and Premiums on Redemptions of Preferred and Preference Stock*—Income from continuing operations available for common stockholders was increased to reflect the redemption of Duke Energy's preferred and preference stock as required by the merger agreement, and therefore no amounts related to dividends and premiums on redemption of preferred and preference stock were included in pro forma income from continuing operations available for common stockholders (see balance sheet note (m)).

(k) *Earnings Per Share and Shares Outstanding*—The pro forma weighted average number of basic and diluted shares outstanding is calculated by adding Duke Energy's weighted average number of basic and diluted shares of common stock outstanding for the three months ended March 31, 2005 or the year ended December 31, 2004, as applicable, and Cinergy's weighted average number of basic and diluted shares of common stock outstanding for those same periods multiplied by the exchange ratio of 1.56:

Description	For the Three Months Ended March 31, 2005	For the Year Ended December 31, 2004
Basic:		
Duke Energy weighted average common shares	954	931
Cinergy weighted average common shares	196	181
Exchange ratio	1.56	1.56
	306	282
Pro forma weighted average common shares	1,260	1,213
Diluted:		
Duke Energy weighted average common shares	990	966
Cinergy weighted average common shares	197	184
Exchange ratio	1.56	1.56
	307	287
Pro forma weighted average diluted shares	1,297	1,253

DUKE ENERGY HOLDING CORP.
UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
March 31, 2005
(In millions)

	Duke Energy Historical	(a) Cinergy Historical	Pro Forma Adjustments	Duke Energy Holding Pro Forma
ASSETS				
Current Assets	$ 8,277	$ 2,312	$ (134)(m)	$10,657
			128 (k)	
			22 (l)	
			3 (f)	
			49 (d)	
Goodwill	4,141	48	4,222 (b)	8,411
Investments and Other Assets	7,591	1,570	224 (e)	10,333
			918 (d)	
			47 (k)	
			32 (f)	
			(49)(j)	
Property, Plant and Equipment, net	33,391	10,043	(95)(c)	43,339
Regulatory Assets and Deferred Debits	2,508	1,058	(28)(g)	3,766
			228 (j)	
Total Assets	$55,908	$15,031	$ 5,567	$76,506
LIABILITIES AND COMMON STOCKHOLDERS' EQUITY				
Current Liabilities	$ 7,121	$ 2,814	$ 14 (i)	$10,170
			139 (k)	
			82 (h)	
Long-term Debt	16,934	4,240	95 (i)	21,269
Deferred Credits and Other Liabilities	13,338	3,418	496 (j)	17,605
			260 (l)	
			93 (k)	
Minority Interests	1,897	63	—	1,960
Preferred and preference stock without sinking fund requirements	134	—	(134)(m)	—
Common Stockholders' Equity				
Common stock	10,436	2	(2)(n)	19,454
			9,018 (b)	
Paid-in capital	—	2,920	(2,920)(n)	—
Retained earnings	5,149	1,639	(1,639)(n)	5,149
Treasury shares at cost	—	(5)	5 (n)	—
Accumulated other comprehensive income	899	(60)	60 (n)	899
Total common stockholders' equity	16,484	4,496	4,522	25,502
Total Liabilities and Common Stockholders' Equity	$55,908	$15,031	$ 5,567	$76,506

See accompanying Notes to Duke Energy Holding Corp. Unaudited Pro Forma Condensed Combined Balance Sheet which are an integral part of these statements.

Duke Energy Holding Corp.
Notes to Unaudited Pro Forma Condensed
Combined Balance Sheet

(a) *Cinergy Historical Presentation*—Certain adjustments have been made to Cinergy's historical presentation in order to conform to Duke Energy's historical presentation.

(b) *Goodwill*—The estimated total purchase price of the mergers, based on the market price of Duke Energy common stock during the period including the two trading days before through the two trading days after May 9, 2005, the date Duke Energy and Cinergy agreed to and announced the mergers, and the excess of purchase price over the book values of the assets acquired and liabilities assumed is as follows ($ in millions):

Value of Duke Energy common stock issued	$ 8,880
Value of Cinergy stock compensation assumed	138
Total estimated purchase price	9,018
Less: Book value of Cinergy assets acquired and liabilities assumed	(4,496)
Excess of purchase price over net book value of assets acquired	$ 4,522

Under the purchase method of accounting, the total estimated purchase price, as shown in the table above, is allocated to Cinergy's net tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values as of March 31, 2005. The fair value of these assets and liabilities is preliminary and is subject to change pending additional information that may come to our knowledge and restructuring decisions made upon completion of the mergers. The preliminary adjustments to the assets acquired and liabilities assumed are as follows ($ in millions):

Excess of purchase price over net book value of assets acquired	$4,522
Adjustments to goodwill related to:	
Power generating assets	95
Emission allowances	(967)
Investments	(224)
Regulatory assets	(228)
Deferred tax assets	(22)
Other assets and liabilities	(7)
Accrued expenses (transaction costs directly related to the mergers)	82
Pension and postretirement benefit obligations, net	545
Long-term debt and notes payable	109
Power supply and fuel contracts	57
Deferred tax liabilities	260
Total adjustments	(300)
Total adjustment to goodwill	$4,222

Pursuant to SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill is not amortized; rather, impairment tests are performed at least annually or more frequently if circumstances indicate an impairment may have occurred. If an impairment exists, the goodwill is immediately written down to its fair value through a current charge to earnings. Accordingly, the goodwill arising from the mergers will be subject to an impairment test at least annually.

(c) *Power Generating Assets*—Represents the pro forma adjustment required to record Cinergy's non-regulated power generating assets at estimated fair value. This adjustment was determined based on Duke Energy's and Cinergy's managements' estimates of fair value based on estimates of current replacement cost and discounted cash flows.

Duke Energy Holding Corp.
Notes to Unaudited Pro Forma Condensed
Combined Balance Sheet

The preliminary analyses indicated fair value estimates of Cinergy's non-regulated generating facilities ranging from approximately $1.7 billion to approximately $2.5 billion. These analyses are significantly affected by assumptions regarding environmental regulation, operating costs and the expected market prices for electricity, fuel and emission allowances. The $(0.1) billion adjustment reflects the difference between an average of estimates within the range and the $2.1 billion book value of the facilities as of March 31, 2005, as Duke Energy and Cinergy management believe this to be an appropriate estimate of the fair value of the underlying assets.

These adjustments will be depreciated over the estimated remaining useful lives of the underlying assets, and could be materially affected by changes in fair value prior to the closing of the mergers.

(d) *Emission allowances*—Represents the pro forma adjustment ($49 million to inventory and $918 million to noncurrent assets) to record at fair value the emission allowances held by Cinergy's non-regulated operations at March 31, 2005. This adjustment was determined based on market information and a discounted cash flow analysis. This adjustment could be materially affected by changes in market prices of emission allowances.

(e) *Investments*—Represents the pro forma adjustment required to record at fair value Cinergy's non-consolidated equity investments in domestic and foreign entities, joint ventures, partnerships, and other cost method investments. The adjustment was determined primarily based on discounted cash flow analyses. Until independent third-party valuations are received on each of the underlying investments, Duke Energy and Cinergy management believe the adjustment to be a reasonable approximation of fair value.

These adjustments could be materially affected primarily by changes in interest rates, commodity prices and third-party appraisals.

(f) *Notes receivable*—Represents the pro forma adjustment required to record Cinergy's notes receivable at estimated fair value. The adjustment was determined based upon credit-adjusted market rates of interest.

(g) *Deferred debt costs*—Represents the pro forma adjustment to eliminate Cinergy's deferred debt costs related to its non-regulated operations.

(h) *Accrued expenses*—Represents the pro forma adjustment related to costs incurred by Duke Energy that are directly attributable to the mergers of approximately $32 million and certain payments to be made to Cinergy employees as a result of the mergers of approximately $50 million.

(i) *Long-term debt and notes payable*—Represents the pro forma adjustment ($14 million for short-term notes payable and the current portion of long-term debt, and $95 million for the non-current portion of long-term debt) required to record Cinergy's third-party debt related to its non-regulated operations at estimated fair value. The increase in the fair value of the debt will be amortized through interest expense over the remaining life of the debt. The final fair value determination will be based on prevailing market interest rates, adjusted for estimated issuance costs, at the completion of the mergers and the necessary adjustment will be amortized as a reduction (in the case of a premium to book value) or an increase (in the case of a discount to book value) to interest expense over the remaining life of the individual debt issues.

(j) *Pension and Postretirement Benefit Obligations*—Represents the pro forma adjustment required to record Cinergy's pension and postretirement benefit obligations to reflect the difference between the present value of the estimated accumulated obligations and the estimated fair values of any related plan assets, including elimination of previously deferred gains and losses, and the related historical intangible asset of $49 million and deferred tax asset of $57 million. $228 million of the adjustment to record Cinergy's pension and postretirement obligations at fair value was recorded

Duke Energy Holding Corp.

Notes to Unaudited Pro Forma Condensed

Combined Balance Sheet

as a regulatory asset as Duke Energy's and Cinergy's managements' believe that those amounts are probable of recovery in regulated rates at PSI and ULH&P

The final determination of the pension and postretirement benefit obligations adjustment may differ materially, largely due to potential changes in discount rates, return on plan assets up to the date of completion of the mergers and the potential conforming of certain Duke Energy and Cinergy assumptions surrounding the determination of these obligations. Additionally, this adjustment could be materially affected by the rate structure of the Cinergy's utilities upon completion of the mergers.

(k) *Power and Fuel Contracts*—Represents the pro forma adjustment required to record, at estimated fair market value, Cinergy's fuel contracts and power sale contracts (including CG&E's Rate Stabilization Plan) that do not qualify as derivatives or are accounted for as "normal purchase, normal sale" transactions under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended.

These adjustments will be amortized to earnings based on the remaining lives of the underlying contracts.

These adjustments were determined based on market information, where available, as well as Duke Energy's and Cinergy's managements' view of the forward market curves for energy prices. This adjustment could be materially affected by changes in prices of power and coal and changes in contract terms.

(l) *Deferred Income Taxes*—The net current deferred tax asset represents the estimated impact on the allocation of purchase price to current assets and liabilities. The net non-current deferred tax liability represents the estimated impact on the allocation of purchase price to non-current assets and liabilities. These estimates are based on an estimated prospective statutory tax rate of approximately 40% and could change based on changes in the applicable tax rates and finalization of the combined company's tax position.

(m) *Duke Energy Preferred and Preference Stock*—Represents the pro forma adjustment to reflect the redemption for cash of Duke Energy's preferred and preference stock. Duke Energy's use of its reasonable best efforts to redeem all of the preferred and preference stock prior to the mergers is a condition stipulated in the merger agreement.

(n) *Common Stockholders' Equity*—Represents pro forma adjustments to eliminate the historical common stockholders' equity of Cinergy.